

CITY OF EARLHAM

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2019 THROUGH JUNE 30, 2020**

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City of Earlham

City of Earlham
Officials
(Before January 2020)

| <u>Name</u> | <u>Title</u> | <u>Expires</u> |
|--------------------|----------------|----------------|
| Jeff Lillie | Mayor | Jan 2020 |
| Adam Griswold | Council Member | Jan 2020 |
| Brock Fredericksen | Council Member | Jan 2020 |
| Chris Swalla | Council Member | Jan 2022 |
| Brant Payne | Council Member | Jan 2022 |
| Scott Petersen | Council Member | Jan 2022 |
| Mary Sue Hibbs | Clerk | Indefinite |
| Sam Braland | Attorney | Indefinite |

(After January 2020)

| <u>Name</u> | <u>Title</u> | <u>Expires</u> |
|--------------------|----------------|----------------|
| Jeff Lillie | Mayor | Jan 2022 |
| Andrew Baskin | Council Member | Jan 2024 |
| Brock Fredericksen | Council Member | Jan 2024 |
| Chris Swalla | Council Member | Jan 2022 |
| Brant Payne | Council Member | Jan 2022 |
| Scott Petersen | Council Member | Jan 2022 |
| Mary Sue Hibbs | Clerk | Indefinite |
| Sam Braland | Attorney | Indefinite |

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We performed the procedures below, which were established at Iowa Code Chapter 11.6, to provide oversight of Iowa cities. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of Earlham for the period July 1, 2019 through June 30, 2020, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Earlham's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained an understanding of the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and observed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.

5. We scanned City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We observed the City's fiscal year 2020 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We scanned selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We observed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We traced selected receipts to accurate accounting and consistency with the recommended COA.
13. We traced voter approved levies to proper authorization in accordance with Chapter 384.12 of the Code of Iowa.
14. We traced selected disbursements to proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
15. We traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers were proper.
16. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
17. We observed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting findings and recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Earlham during the course of our agreed-upon procedures engagement. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in cursive script that reads "Faller, Kincheloe & Co. PLC".

Faller, Kincheloe & Co, PLC

December 21, 2020

Detailed Findings and Recommendations

CITY OF EARLHAM
DETAILED RECOMMENDATIONS
For the period July 1, 2019 through June 30, 2020

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one or two individuals have control over each of the following areas for the City of Earlham (City):

1. Cash – handling, reconciling and recording.
2. Investing – recordkeeping, investing, custody of investments and reconciling earnings.
3. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
4. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
5. Payroll – recordkeeping, preparation and distribution.
6. Debt – recordkeeping, compliance and debt payment processing.
7. Utilities – billing, collecting, depositing and posting.
8. Financial reporting – preparing and reconciling.
9. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Bank Reconciliations – The savings and investment balances in the City's general ledger were not reconciled to bank and investment account balances throughout the year. For the two months reviewed, bank and book balances did not properly reconcile.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely.

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations. The reviews should be documented by signing or initialing and dating the reconciliations.

- (D) Financial Condition – At June 30, 2020, the City had deficit balances of \$15,848 and \$25,065 in the Special Revenue, Employee Benefits Fund and the Debt Service Fund, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial condition.

CITY OF EARLHAM
 DETAILED RECOMMENDATIONS
 For the period July 1, 2019 through June 30, 2020

- (E) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

| Name, Title, and Business Connection | Transaction Description | Amount |
|------------------------------------------------|----------------------------|---------|
| Jeff Lillie, Mayor Owner of Lillie Plumbing | Repairs and maintenance | \$5,832 |

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the above transactions with Lillie Plumbing do not represent a conflict of interest since the total transactions were less than \$6,000.

- (F) Disbursements – We needed some disbursements which were misclassified on the City's accounting records.

Recommendation – The City should implement procedures to ensure all disbursements are properly classified on the accounting records.

- (G) Payroll - Some compensation paid to a City employee was paid as an independent contractor, and not as wages, as required by Internal Revenue Service (IRS) requirements.

In addition, one instance was noted where authorization for an employee rate of pay could not be located.

Recommendation – The City should ensure IRS requirements are followed in relation to the paying and proper reporting of wages for City employees. In addition, the City should ensure supporting documentation exists for all employee rates of pay.

- (H) Annual Urban Renewal Report (AURR) – The City's beginning and ending cash balances in the Special Revenue, Tax Increment Financing Fund as reported on the Levy Authority Summary do not agree with the City's records.

Recommendation – The City should ensure the balances and activity reported on the AURR Levy Authority Summary agree with the City's records.

- (I) Water Revenue Notes – The provisions of the water revenue notes require sufficient monthly transfers to be made to a separate water revenue note sinking account for the purpose of making the note principal and interest payments when due. The City has not consistently made monthly transfers to the water revenue note sinking account during the fiscal year.

Recommendation – The City should ensure sufficient monthly transfers are made to the water revenue note sinking account as required.

CITY OF EARLHAM
DETAILED RECOMMENDATIONS
For the period July 1, 2019 through June 30, 2020

- (J) Certified Budget – Disbursements during the year ended June 30, 2020 exceeded the amounts budgeted in the general government and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.